

INSURANCE COUNSELOR

Insurance Consumer Information Sheet

A Report on Insurance Credit Scoring

During 2002, the Michigan Office of Financial and Insurance Services (OFIS) studied the use of credit scores to set insurance rates. The study found that while Michigan law allows insurance companies to offer discounts based on insurance credit scoring, better consumer protections must be implemented.

It is important to remember that an insurance company cannot deny, cancel, limit or add a surcharge to a non-group homeowner or automobile insurance policy based on an insurance credit score. Insurance companies can, and many do, offer a discount for good credit.

A listing of insurance companies that offer insurance credit score discounts is available at http://www.michigan.gov/documents/cis_ofis_credscor_lst_26800_7.pdf.

The OFIS insurance credit scoring report outlines changes that Michigan insurance companies must make if an insurance credit scoring discount is offered. Those changes include:

- Requiring all Michigan insurance companies to inform policyholders of credit scores and levels of discount annually. In addition, the companies will have to file with OFIS the insurance credit scoring formula used to apply a discount and the specific factors used to calculate the credit score. The formulas and factors will be available for public inspection pursuant to the Michigan Freedom of Information Act.

- Requiring companies using an insurance credit scoring discount to recalculate and then apply a policyholder's insurance credit score at least once annually and at any time a consumer has successfully disputed his or her credit history information.
- Requiring companies using an insurance credit score discount to file with OFIS an actuarial certification justifying discount levels and tiers annually, including those discounts granted to policyholders with no credit history ("no hits") or whose credit histories do not reveal all the credit factors used by the company's formula ("thin files") to determine the insurance credit score.

These changes will be implemented during 2003.

OFIS will also make recommendations to the Michigan legislature about additional insurance credit scoring consumer protections. Those recommendations are:

- Consider prohibiting the practices of denying coverage, canceling coverage, limiting coverage or surcharging insureds or applicants for personal lines of insurance other than automobile or homeowners based on an insurance credit score.
- Consider amending the laws pertaining to group automobile and homeowners insurance to prohibit a surcharging based on an insurance credit score.
- Consider requiring insurers to review the credit history of all adults, known

to be covered by an automobile or homeowner policy, and then mandate applying an insurance credit discount based on the best numerical credit score reviewed.

- Consider directing insurance companies on how to apply insurance credit scoring discounts involving the lack of credit history (“no hits”) and credit histories revealing fewer than all the factors used by a company to determine its insurance credit score (“thin files”).
- Require notification to consumers that an insurance credit scoring discount is being applied at the time of either application for coverage or renewal of coverage.
- Require companies to give notice to insureds, with specificity, as to why an adverse in insurance credit scoring action is occurring. This should require disclosing the specific attributes of the credit history that result in the adverse action. Although the federal Fair Credit Reporting Act requires this, placing this requirement in Michigan law will empower the commissioner to penalize violations of this provision.
- Prohibit certain types of credit inquiries from negatively affecting a person’s insurance credit score. Inquiries to consider banning from use include, but are not limited to: inquiries relating to insurance coverage; collection accounts with a medical industry code; and multiple lender inquiries from the automobile lending industry made within 45 days of one another.
- The Legislature may wish to fund a comprehensive study under the direction of the Commissioner of outstanding issues pertaining to credit

scoring. Such issues could include why there exists a predictive link between an insurance credit score and the likelihood of loss, and whether insurance credit scoring impermissibly affects persons based on socio-economic or other factors.

- The Legislature should consider repealing MCL 500.2129, which allows some insurance companies to be exempt from the Essential Insurance Act requirements. Presently, these exempt companies can use insurance credit scoring for both underwriting (denying or canceling coverage) and surcharging because the policyholders of these companies are not afforded these protections under current law.

OFIS insurance credit scoring material is available at www.michigan.gov/ofis by clicking on the credit scoring logo at the bottom of the page. The OFIS insurance credit scoring report can be directly linked at http://www.michigan.gov/documents/cis_ofis_credit_scoring_report_52885_7.pdf. All information, as well as assistance with insurance complaints, is also available by contacting OFIS toll free at 877-999-6442.